



Long term outlook intact

Demand during Q1FY24 was hit due to erratic rainfall, delayed sowing, pricing pressure in all markets, surplus channel inventory and delayed purchasing decision by trade partners. Delayed demand in Q1 will result in spillover of sales in Q2 especially in the domestic markets as the July rainfall was healthy. We expect the exports markets to be subdued for another quarter or so due to high inventory in the channel and pricing pressure. Expectation is that the performance will improve from H2FY24. Expect the new molecules to be supplied to Japan to start contributing from Q2 onwards and full ramp up will be seen in FY25.

Although near term challenges persist for the industry the long term story for Sumitomo Chemical remains intact. At CMP of Rs 410, SCIL trades at 34x FY25E EPS of Rs 12.02. Due to the near term headwinds we have cut FY24/FY25 estimates by 24%/10% .We maintain a BUY Rating on the stock & value SCIL at 40x FY25E EPS to arrive at a target price of Rs 481, an upside of 17% (cut target price by 10%).

Key Financial Highlights:

- Revenue at INR 7,242 Mn, -27% YoY / +11% QoQ
- EBITDA (Excl OI) at INR 806 Mn, -57% YoY / flat QoQ
- EBITDA margin (Excl OI) at 11.1% vs 12.4% / 19% in Q4FY23 / Q1FY23
- PAT at INR 617 Mn, -55% YoY / -14% QoQ
- EPS stood at INR 1.24 vs 1.45 / 2.77 in Q4FY23 / Q1FY23

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	10,208	16,250	17,829	19,348	22,743
EBIDTA	2,034	4,304	4,165	3,687	4,336
Margins (%)	19.9	26.5	23.4	19.1	19.1
Adjusted net profit	688	2,405	2,565	2,134	2,554
EPS (Rs)	5.6	19.6	20.9	17.41	20.83
P/E (x)	53	15	14	17	14
EV/EBITDA (x)	20	9	8	11	10
RoCE (%)	11.44%	28.93%	24.89%	17.11%	18.98%
RoE (%)	9.42%	25.27%	21.49%	15.37%	15.71%

Source: Company, Dalal & Broacha Research

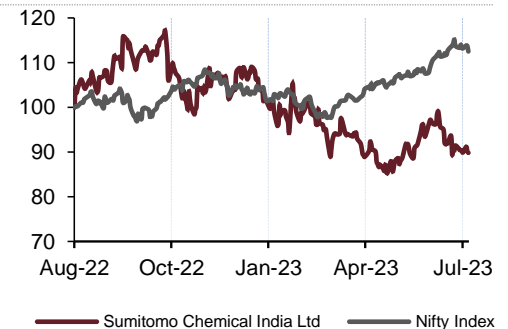
Rating	TP (Rs)	Up/Dn (%)
BUY	481	18

Market data

Current price	Rs	407
Market Cap (Rs.Bn)	(Rs Bn)	203
Market Cap (US\$ Mn)	(US\$ Mn)	2,468
Face Value	Rs	10
52 Weeks High/Low	Rs	540.8 / 382
Average Daily Volume	('000)	1,000
BSE Code		542920
Bloomberg		SUMICHEM.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-23	Mar-23
Promoters	75	75
Public	25	25
Total	100	100

Source: Bloomberg

Harsh Shah
+91 22 67141496

harsh.shah@dalal-broacha.com

Quarterly Financials

(Rs.Mn)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Revenue from Operations	7,242	9,855	-27%	6,516	11%
Other Income	175	47	276%	165	6%
Total RM Cost	4,989	6,392	-22%	4,474	12%
Employee Benefits Expense	601	572	5%	545	10%
Other Expenses	847	1,016	-17%	691	22%
Total Expenses	6,436	7,980	-19%	5,710	13%
EBITDA (Excluding Other Income)	806	1,876	-57%	806	0%
Depreciation and Amortisation Expenses	135	112	20%	140	-4%
EBIT / PBIT	846	1,810	-53%	830	2%
Finance Costs	13	13	2%	14	-4%
EBT/ PBT	833	1,797	-54%	816	2%
Tax Expense	216	415	-48%	95	128%
Net Profit after Tax	617	1,381	-55%	721	-14%
Adj Earning Per Share	1.24	2.77	-55%	1.45	-14%
Margins (%)			(In bps)		(In bps)
Gross Margins	31.1%	35.1%	-403	31.3%	-21
EBITDA Margins (Excl Other Income)	11.1%	19.0%	-790	12.4%	-123
PAT Margins	8.3%	14.0%	-564	11.1%	-276
As a % to sales					
RM as a % to sales	68.9%	64.9%		68.7%	
EE Cost as a % to sales	8.3%	5.8%		8.4%	
Other exps as a % to sales	11.7%	10.3%		10.6%	

Exports were under pressure due to high channel inventory and pricing pressure.

Key Points to note:

Demand outlook :

- Demand during Q1FY24 was hit across industry due to erratic rainfall, delayed sowing, pricing pressure in all markets, surplus channel inventory and delayed purchasing decision by trade partners.
- Delayed demand in Q1 will result in spillover of sales in Q2 especially in the domestic markets as the July rainfall was healthy.
- We expect the exports markets to be subdued for another quarter or so due to high inventory in the channel and pricing pressure. Expectation is that the performance will improve from H2FY24.
- Expect the new molecules to be supplied to Japan to start contributing from Q2 onwards and full ramp up will be seen in FY25.

Margin outlook:

- EBITDA margins contracted by 790 bps mainly due to high cost inventory leading to contraction of gross margins by 400 bps and lesser absorption of fixed costs.
- We believe the issue of high cost inventory is behind us and expect margins to see an uptick from Q2 as prices in the domestic markets have more or less bottomed out.

Product launches & update

- 3 herbicides, 1 insecticides launched in Q1FY24

Capex:

- Earlier capex guidance of Rs.125 crs maintained which will contribute Rs.200-250 crs of topline (Asset T/O of 2x)

Valuations and Outlook:

Although near term challenges continue across industry & for company the long term story is very much intact and any major correction is a good opportunity for investors to enter/revisit the stock as Sumitomo has multiple levers of growth in place. Sumitomo has not put pressure on the trade partners by increasing the supply therefore the numbers reported reflect the true picture on the ground. **At CMP of Rs 410, SCIL trades at 34x FY25E EPS of Rs 12.02. Due to the near term headwinds we have cut FY24/FY25 estimates by 24%/10% .We maintain a BUY Rating on the stock & value SCIL at 40x FY25E EPS to arrive at a target price of Rs 481, an upside of 17% (cut target price by 10%)**

FINANCIALS

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	26,449	30,646	35,124	33,660	41,362
Operating Expenses	-16,554	-19,080	-22,706	-22,425	-26,472
Employee Cost	-1,943	-2,020	-2,184	-2,420	-2,675
Other Expenses	-3,084	-3,547	-3,568	-3,198	-4,136
Operating Profit	4,869	5,999	6,666	5,618	8,079
Depreciation	-466	-448	-519	-611	-691
PBIT	4,403	5,551	6,147	5,007	7,388
Other income	186	268	449	650	700
Interest	-56	-62	-54	-59	-65
PBT	4,533	5,757	6,542	5,598	8,022
Profit before tax	4,533	5,757	6,542	5,598	8,022
Provision for tax	-1,079	-1,522	-1,520	-1,411	-2,022
Profit & Loss from Reported PAT	3,454	4,235	5,022	4,187	6,001
MI	-1	0	-	-	-
Owners PAT	3,453	4,235	5,022	4,187	6,001
Adjusted Profit	3,453	4,235	5,022	4,187	6,001

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	4,991	4,991	4,991	4,991	4,991
Reserves	10,421	14,281	18,826	22,472	27,873
Net worth	15,412	19,272	23,818	27,464	32,864
MI	1	0	0	0	0
Non Current Liabilites	496	610	539	586	641
Current Liabilites	10,810	10,214	9,334	11,554	13,754
TOTAL LIABILITIES	26,719	30,096	33,691	39,604	47,259
Non Current Assets	3,676	4,876	5,812	8,030	8,529
Fixed Assets	2,925	3,892	4,678	6,882	7,365
Right of Use Assets	311	363	332	332	332
Financial Assets	53	301	359	359	359
Deferred Tax Asset	204	216	349	359	370
Advances	8	8	6	6	6
Assets	176	95	87	91	96
Current Assets	23,044	25,221	27,879	31,574	38,730
Current investments	2,902	3,560	2,388	2,626	2,889
Inventories	7,544	9,378	8,887	10,752	12,692
Trade Receivables	8,482	8,431	9,461	9,222	11,332
Cash and Bank Balances	2,421	792	3,028	4,858	7,701
Advances	23	5	5	5	5
Other Financial Assets	169	1,745	2,849	2,849	2,849
Other Current Assets	1,503	1,310	1,261	1,261	1,261
TOTAL ASSETS	26,719	30,096	33,691	39,604	47,259

Cashflow (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Profit	3,453	4,235	5,022	4,187	6,001
Add: Dep. & Amort.	466	448	519	611	691
Cash profits	3,919	4,684	5,541	4,798	6,692
(Inc)/Dec in					
-Sundry debtors	15	51	-1,029	239	-2,110
-Inventories	-1,664	-1,834	491	-1,865	-1,940
-Loans/advances	-441	-1,209	-1,182	-15	-15
-Current Liab and Provisions	2,441	-620	-912	2,224	2,203
Change in working capital	352	-3,612	-2,633	583	-1,863
CF from Oper. activities	4,271	1,072	2,908	5,381	4,829
CF from Inv. activities	-2,498	-2,374	-159	-3,053	-1,438
CF from Fin. activities	-287	-327	-513	-498	-549
Cash generated/(utilised)	1,485	-1,629	2,237	1,830	2,842
Cash at start of the year	935	2,421	792	3,028	4,858
Cash at end of the year	2,421	792	3,028	4,859	7,701

Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	18.4	19.6	19.0	16.7	19.5
NPM	13.0	13.7	14.1	12.2	14.3
Tax rate	-23.8	-26.4	-23.2	-25.2	-25.2
Growth Ratios (%)					
Net Sales	9.1	15.9	14.6	-4.2	22.9
Operating Profit	46.1	23.2	11.1	-15.7	43.8
PBIT	50.7	26.1	10.7	-18.5	47.5
PAT	68.8	22.6	18.6	-16.6	43.3
Per Share (Rs.)					
Net Earnings (EPS)	6.92	8.49	10.06	8.39	12.02
Cash Earnings (CPS)	7.85	9.38	11.10	9.61	13.41
Dividend	0.55	0.80	1.20	1.20	1.20
Book Value	30.88	38.61	47.72	55.02	65.84
Free Cash Flow	7.76	-0.72	-0.39	6.48	5.30
Valuation Ratios					
P/E(x)	56	46	38	46	32
P/B(x)	13	10	8	7	6
EV/EBIDTA(x)	39	31	28	33	23
Div. Yield(%)	0.14	0.21	0.31	0.31	0.31
FCF Yield(%)	2.00	-0.19	-0.10	1.67	1.37
Return Ratios (%)					
ROE	22%	22%	21%	15%	18%
ROCE	30%	30%	28%	21%	25%
RoIC	35%	29%	28%	21%	27%

Source: Company, Dalal & Broacha Research

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.
Tel: 91-22- 2282 2992, 2287 6173 | E-mail: equity.research@dalal-broacha.com